
"Dimitrie Cantemir" Christian University
Knowledge Horizons - Economics
Volume 6, No. 2, pp. 21–25
P-ISSN: 2069-0932, E-ISSN: 2066-1061

www.orizonturi.ucdc.ro

EU REINDUSTRIALIZATION POLICY

Petre PRISECARU

Institute for World Economy, Romanian Academy, E-mail: petreprisecaru@yahoo.com

Abstract *A new industrial policy in EU focuses on increasing manufacturing share in GDP, on promoting high tech branches and key enabling technologies, on smart specialization promoted at all levels, on strengthening the competitiveness of industry at national and international level, on increased internationalization of EU industries (involved in global value chains), on encouraging and supporting SMEs through a better access to finance, on upgrading the European transport, energy and communication infrastructure and services to serve industry, on establishment of a close link between energy policy and industrial policy, especially by developing energy renewable resources, on EU financial instruments and other innovative financial instruments, on a better governance and coordination at European level.*

Key words:
Reindustrialization, manufacturing, specialization, innovation, competitiveness, finance, investment

JEL Codes:
F15, L16, L52, O31, O38

1. Introduction

EU Agenda of economic development

When in March 2000 European Union adopted Lisbon Strategy, a supply side agenda, the aim was to make Europe, by 2010, the most competitive and the most dynamic knowledge-based economy in the world. This strategy proved to be a failure because was based on so-called "*Open Method of Coordination"* by applying two principles: a) structural reform at national level is of common interest b) peer pressure may work at the European Council level (Charles Wyplosz, 2010). Weak coordination at EU level may be blamed for insufficient structural reforms in the Member States and also weak support for these reforms on behalf of interest groups at national level. In 2010 Lisbon Strategy was replaced by Europe 2020 aiming at EU to become a smart, sustainable and inclusive economy, having five ambitious objectives - employment, innovation, education, social inclusion and climate/energy - to be reached by 2020. Another important target recently added is to increase the share of manufacturing industry in GDP from 15.1% in the summer of 2013 to 20% until 2020.

2. EU Deindustrialization and the Recent Evolution of European Manufacturing Industry

In the last two decades EU lost a part of its manufacturing industry and also many jobs mainly due to relocation of energy-intensive and labor-intensive industries to (Eastern) Asia. The decline in the manufacturing sector share for services share was obvious and prominent in the EU although it was a worldwide trend. The share of associated services to manufacturing output has significantly increased across all industries since 1995 and they include various activities, such as: R&D, engineering design, software design, market research, marketing, organizational design and after-sales training, maintenance and support services. As a result of declining share of manufacturing industry in the GDP the economic crisis mostly affected Western countries with a low share of manufacturing industry and with significantly lower exports of processed products. Within manufacturing industry some branches, such as food and beverages, pharmaceuticals, high-tech sectors performed better than car industry and other consumer goods. Construction and mining sectors were badly affected by the crisis together with other manufacturing branches. Market services were less hit than the whole industry and the importance of associated services in manufacturing was growing in the last years. While the share of manufacturing and other industrial sectors in GDP declined in the last years, the share of market and non market services slightly increased. Services have recorded a lower increase of productivity comparing to industry, are more labor intensive and have a higher income elasticity of demand.

A fragile recovery of EU industry mirrored by a positive growth was recorded in 2010-2011 followed by a business downturn in 2012-2013 but there were significant differences between Western countries and CEE countries, the last ones recording an important growth of industrial output, mainly due to the increase of exports.

Industrial corporations have tried to increase their competitiveness and profits by lowering costs, increasing labor productivity, reducing the number of employees, introducing new technologies and innovating products and processes. As a result employment recorded a general decline in manufacturing, in particular in low-tech industries, and a slight increase in associated services, maybe due to service outsourcing of manufacturing companies. Even SME's, which represent 99% of all enterprises in the EU and have a strong growth potential, were badly affected by the weak demand and were not able to compensate the decrease of employment in corporative sector. Although SME's predominate in less capital-intensive industrial sectors and are strongly represented in services, they are under-represented in manufacturing industries based on economies of scale, like tobacco, oil refining, logistics, motor vehicle, air transport and other transport equipment.

High-tech industries have been the main engine of industrial growth, being more resilient to the negative effects of the crisis due to higher productivity and limited dependence on energy. Comparing to USA European Union has very high costs of energy which badly influence the level of competitiveness and it has to specialize on high-tech and low energy intensive industries, which becomes a crucial matter for the strategic positioning of the EU industries in the global value chain. Besides cutting the costs of energy one should substantially increase the innovation efforts and funds in order to reduce the technical and technological gap and to successfully compete with USA, Japan, China, and other emerging countries on international market. Data on patent applications and other indicators show that many high- and medium-tech industries from EU perform at a lower level than the similar industries from USA. It is important to notice that China becomes fast enough a great economic power and has rapidly developed high tech branches and products. However much of the content of Chinese high tech exported goods are imported from developed countries, a similar situation being encountered for the other emerging countries.

EU remains a leader in global trade, single-market trade representing a quarter of world manufactured trade in 2011. EU industry provides 75% of all EU exports and a trade surplus of € 365 billion per year, a quarter of total employment and 80% of all research and innovation activities. On the international markets EU manufacturing industries with the highest comparative advantages and export specialization are: printing and reproduction of recorded media, tobacco, beverages, pharmaceuticals, paper and paper products, planes and motor vehicles. It is noteworthy that large proportions of world trade, investment and production are increasingly organised in global value chains (GVCs). Due to the strong growth of global capital flows, including foreign direct investments, one may speak about an increased internationalisation of EU industries but it must be specified that capital inflows and outflows have been badly hit by the crisis and they focus now within EU on financial intermediation, real estate and business activities and not on manufacturing sectors.

In the table 1 it is presented a brief comparison on industrial sector and manufacturing industry share in GDP of some Western and CEE countries.

Table 1. Industry share in GDP of some EU countries in 2012

Country	Industrial sector	Manufacturing*	Other industries**
Germany	30.5	22.4	8.1
France	18.8	10.0	8.8
Italy	24.2	15.6	8.6
Great Britain	21.4	10.3	11.1
Spain	27.0	13.5	13.5
Poland	32.5	17.3	15.2
Czech Republic	37.3	24.7	12.6
Hungary	30.7	22.7	8.0
Romania	42.1	24.8	17.3

** 13 processing branches*

*** mining, utilities, construction*

Source: *(European Commission, 2013*[1])

3. Strategic Framework for EU Reindustrialization

Due to the striking decline of manufacturing industry share in GDP between 2000 and 2012 in Western Europe (-5.3% in France, -5.3% in Great Britain, -4.5% in Italy, -4.4% in Spain, - 5.9% in Belgium) and due to ambitious objectives set by Europe 2020 European institutions have tried to promote the reindustrialization process in the last years.

In March 2011 *European Parliament* adopted a resolution called "*An Industrial Policy for the Globalisation Era*", included in the Europe 2020 Strategy, which underlines the objectives of EU industrial policy, focusing on speeding up the adjustment of industry to structural changes, encouraging an environment favorable to initiative and to the development of undertakings throughout the Union, particularly small and medium-sized undertakings, encouraging an environment favorable to cooperation between undertakings, fostering better exploitation of the industrial potential of policies of innovation, research and technological development. A number of 15 specific objectives were set in this resolution, and special attention was paid to the promotion of innovation and competitiveness, SME's access to credit and internationalization, strengthening the European standardization, upgrading of European transport, energy and communication infrastructure and services to serve industry, adopting a new strategy on raw materials.

In June 2012 *European Council* adopted *A Growth and Jobs Pact,* which provided a sum of €120 billion for quick action measures to stimulate the economic growth targeting mainly the SMEs.

In October 2012 *Commission Communication*, called *A Stronger European Industry for Growth and Economic Recovery*, revealed the need to reverse the declining role of industry in Europe for the 21st century and proposed a partnership between the EU, its Member States and industry. The pillars for a reinforced industrial policy are: investment in innovation, better market conditions, access to capital and human capital and skills. Six priority areas for immediate action were proposed in the Communication: a) markets for advanced manufacturing technologies for clean production; b) markets for key enabling technologies; c) bio-based product markets; d) sustainable industrial policy, construction and raw materials; e) clean vehicles and vessels; f) smart grids. Accompanying measures or actions required for accelerating the uptake of new technologies and investments are mentioned in this document:

- a simplified, predictable and stable Internal Market regulatory framework for new products and services, including the appropriate standards and certification;
- infrastructure development must be coordinated and synchronized with increases in production capacity;
- R&D and innovation efforts should be coordinated across the EU to ensure the timely deployment and commercialization of the technologies;
- Commission will take complementary measures to ensure that the necessary skills are available for the development of these markets and to stimulate demand for the uptake of the new innovation.

To achieve the goal of increasing the share of manufacturing industry in GDP at 20% in 2020 it deems necessary to pick up substantially the level of investments (gross capital formation and investments in equipment); to develop trade in goods within the internal market; to increase significantly the number of SMEs who export to third countries, to proliferate the parks and industrial conglomerates as well as innovative clusters within the EU, to develop a powerful IT infrastructure and appropriate channels (Connecting EuropeFacility-Transport, Energy, Telecommunications, Digital Agenda).

On 10 October 2012, *the European Economic and Social Committee* decided to draw up its own-initiative opinion on" *A Stronger European Industry for Growth and Economic Recovery — Industrial Policy Communication Update"*, which was adopted on 11 July 2013. This opinion relates to the consistency of the major themes and to ensure an effective governance through coordination. EESC urged the Commission, the Council, and the European Parliament to intensify initiatives and transversal policies that meet the huge challenge of enhancing industrial production across Europe. EESC agreed with the European Commission that the national and EU interventions must be complementary, this being a fundamental condition for the success of European industrial policy. At the same time, it stressed a range of interconnected themes which were considered essential for the future of European industry, namely: industrial innovation, skills and qualifications, access to finance, sustainable development, services, administrative barriers, SMEs, energy, external relations.

On 22 January 2014 *the European Commission* presented a Communication entitled *"For a European industrial renaissance,"* where the industry is put at the forefront of the development agenda of the EU and which stresses the importance of community and national policies for the re-industrialization of the region. Member States and regions within them must recognize the importance of industry in creating jobs and supporting economic growth, also for framing of the preoccupations with industrial competitiveness in all policies areas. There are taken into account 4 lines of strategic direction: industrial credit, access to markets, retraining and innovation. In the field of regional finance an amount of 100 billion euro is set for investments in innovation up to 2020 in 6 strategic areas: advanced processing, advanced generic technologies, transport and clean vehicles, bio products, construction and materials, smart grids. Member States must remove technical barriers and create modern infrastructure to support inter-free movement of goods and services. By providing the above mentioned Communication, European Commission was going to support the decisions taken by the European Council in March 2014 on industry, energy and the environment in order to strenghten the EU economic competitiveness.

In February 2014 it was published *Industrial Strategy in Europe, Competitiveness and Growth,* which presents different *opinions and initiatives of European officials and industrial leaders* for a united industrial strategy in EU in line with 2020 objectives. There is an obvious need for an increased investment in research and development, for stimulating the innovation and for facilitating the transfer of knowledge and technology, for transnational cooperation in innovation chains, like the Clean Sky program. Industrial renaissance must be supported by a more complete internal energy market and energy efficient infrastructure for SMEs. There was a call for an *Industrial Pact* based on freer credit and improved market reach. Stronger support is needed for SME growth on behalf of the European Investment Bank (Growth Finance Initiative) in order to reach the benchmark of 20% industrial share within GDP and to facilitate their access to the booming third-world economies and markets (through recent initiatives like *Missions for Growth).* State aid must be modernized and reformed, especially concerning the financial support granted to energy-intensive industries.

In March 2014 during its spring summit *European Council* has concluded that EU needs a strong and competitive industrial base, in terms of both production and investment, as a key driver for economic growth and jobs and put a special emphasis on strengthening the competitiveness of industry at national level, on the role of Regulatory Fitness and Performance Programme (REFIT) in reducing the regulatory burden, on fostering the entrepreneurship, on encouraging the creation and growth of SMEs, including facilitating access to finance across the EU, on smart specialisation promoted at all levels, including through the efficient use of public investment in research. EU instruments may be used, such as Horizon 2020, the Connecting Europe Facility, the European Structural and Investment Funds and COSME as well as market-based and other innovative financial instruments to support competitiveness and access of SMEs to finance. European Investment Bank should further contribute to enhancing European companies' internationalization and competitiveness. On the international markets the objective is to integrate the European companies in global value chains and to promote a free, fair and open trade. Modern state aid rules will enter into force in June 2014 and the scope of the General Block Exemption Regulation will be extended. European Council focused on the shortages in the area of science, technology, engineering and mathematics (STEM skills) as a matter of priority, with increased involvement of industry, on intellectual property and patenting as key drivers for growth and innovation, on key enabling technologies (KETs) of crucial importance for industrial competitiveness.

4. Suport Policies for Industrial Development

Support for SMEs. In EU there are 20 million SMEs, mostly of them being micro-enterprises, that play an important role in the European economy as they have employed about 86.8 million people in 2012, representing 66% of total employment in Europe. SMEs generated 57,6% of the gross added value produced by the private(non-financing) economy in the financial year 2012.

In the Commission Communication COM (2008) 394 entitled "*Small Business Act for Europe*" there were released 10 principles to guide the implementation of policies for stimulating economic activity of SMEs, both at EU and Member States level. In the Commission Communication COM (2012) 795, "*Entrepreneurship is a powerful driver of economic growth and job creation,*" it is shown that entrepreneurship is a powerful factor for economic growth and job creation, which leads to the creation of new businesses, new markets and stimulate the development of new skills and capabilities.

European Union provides financial support for SMEs, available in different forms such as grants, loans and, in some cases, guarantees, and support schemes can be divided into four categories: thematic funding opportunities, structural funds, financial instruments, support for SMEs internationalization. Due to high economic growth recorded by emergent economies, European SMEs must be more involved on their markets and *Missions for Growth Programme* encourages the openness to third markets.

EU Energy Policy. The process of establishing the internal market in energy must be completed this year and the gas interconnections by 2015. In early 2014, the European Commission has submitted to the European Parliament for review, a framework programme on the main orientations of EU environmental and energy policy at the horizon of year 2030, the aim being to establish a clear bridge between energy policy and industrial policy because energy matters a lot in large and energo-intensive industries, such as steel, chemicals, cement, glass, paper, aerospace and automotive. The so-called *third industrial revolution* is defined as an alliance between renewable energy sources and interconnected society and is meant to increase energy security and decrease the high dependence on energy imports(€600 billion per year).The main orientations of energy policy in the next 16 years are: investments in energy infrastructure, diversification of energy supply and recovery of local sources, completing the single market for energy, developing of renewable resources, improvement of energy efficiency, reduction of energy prices, a new governance system based on national plans for a competitive, secure and sustainable energy.

5. Conclusions

1) The EU has not a common industrial policy as industrial policy is within the competence of Member States, but with coordination at Community level, through the application of the open method of coordination. Its diversity is a national asset for national governments, but the fragmentation is harmful to an overall vision and common interests of the Member States, in particular those relating to reindustrialization.

2) To achieve the ambitious objective of 20% share in GDP of manufacturing industry by 2020, significant investments are required, a sensitive increase of productivity, substantial adjustments of policies in this area, as well as the adoption of a EU common strategy, applicable by the Member States, involving important decisions in the field of industrial policy relating to actions, roadmaps and time-lines. This would entail a transfer of powers at Community level but also a more resolute and quick involvement of each Member State. Complementarities between national interventions and those of the European Union in terms of industrial policy are a fundamental condition for the success of the new European industrial policy

3) A new industrial policy as a component of Europe 2020 Strategy is meant to create a strong and competitive industrial base in Europe but it requires better governance both at EU level and national level and more effective support policies in the field of financing, energy, environment, R&D.

4) European Commission has identified 6 strategic and priority areas for the future industrial development: a) advanced processing, b) advanced generic technologies, c) transport and clean vehicles, d) bio products, e)sustainable industrial policy, construction and materials, f) smart grids, but they must be accompanied by proper actions, like completing the internal market, better market access and conditions, enhanced public and private investment in innovation and production, upgrading of all infrastructures supporting industry, more performing human resources, better access on international markets.

5) After 2000 Romania has recorded a reindustrialization process, the share of manufacturing industry in GDP increased by 2,8% in 2000- 2012 mainly based on the contribution of foreign corporations and many new established SMEs centred on components and finished products. In 2013 over 60% of Romanian exports (around €50 billion) were intermediate goods and over 80% of export were made by foreign companies.

6) Due to massive deindustrialization recorded in the 90's Romania needs a new and qualitative industrial expansion based on foreign and domestic investments and also on existing natural, human and financing resources, on regional strategies for smart specialization, on SMEs contribution to innovation and employment, on a better strategic vision and economic governance. This process must be correlated with strategic directions set at EU level, with other policies and strategies that support the new industrial development.

7) For a rapid and effective reindustrialization Romania needs modern transport infrastructures, well trained human resources, solid financial support for R&D activities, many innovative clusters and new industrial parks, sovereign funds for financing the SMEs, a good absorption of Structural Funds, relaunching of economic and trade bilateral relations with third countries.

8) Romania has to develop to a large extent the associated services to manufacturing output and also some market services such as transport, storage, communications, tourism, business services in order to reduce the unemployment rate and to repatriate a part of emigrated labor force.

References

1. Wyplosz Charles (2010), *The failure of the Lisbon strategy,* VOX, 12 January

2. European Parliament, (2011), *European Parliament resolution of 9 March 2011 on an Industrial Policy for the Globalized Era (2010/2095(INI)),* http://www.europarl.europa.eu

3. European Commission, (2012), *Communication From The Commission To The European Parliament, The Council, The European Economic And Social Committee And The Committee Of The Regions, A Stronger European Industry for Growth and Economic Recovery* http://eur/lex.europa.eu

4. European Economic and Social Committee (2013), *A Stronger European Industry for Growth and Economic Recovery — Industrial Policy Communication Update"*, Bruxelles, 11 July

5. EU Framework Programme for Research and Innovation (2013) "*Horizon 2020*" (2014-2020)

6. European Commission Communication, (2014) *For a European Industrial Renaissance*", Bruxelles, January, www.europeanfiles.com

7. The European Files, (2014) *Industrial Strategy in Europe, Competitiveness and Growth,* February,

8. European Commission, (2014), *Energy and climate goals for 2030,* 22 January

9. European Council (2014), *European Council Conclusions*, 20-21 March.